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**THE IMPACT OF BOARD STRUCTURE AND GOVERNMENT
OWNERSHIP ON DIRECTOR REMUNERATION: EMPIRICAL EVIDENCE
OF GOVERNMENT LINKED COMPANIES**



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Thesis Submitted to School of Economics, Finance and Banking, Universiti Utara
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ABSTRACT

This thesis investigates some of corporate governance practices in Malaysian public listed companies with a particular interest in selected government linked corporation (GLCs), participating under the government transformation programme (GTP). Thus, this study uses board characteristics, government ownership and performance as independent variables that affect directors' remuneration. The board characteristics consists of board size, proportional of independent director, proportional independent director in remuneration and audit committee and CEO tenure. The control variables used are firm size, leverage and growth in this study. The study explains the relationship between director remuneration and corporate governance structures in a distinguished setting when the government has some influence in corporate decision making. There are 20 GLCs (known as G20s) selected under implementation of government transformation programmes starting from 2004. The study is conducted based on balanced data under observation for 6 years (2010-2015). However, due to sample selection criteria, there are only fifteen companies left for selection in this study. The agency theory and steward theory are used in this study to determine whether there is an implication in the corporate governance issues towards directors' remuneration. Using pooled OLS and Panel data regression techniques, it is found that board characteristics – independent directors and board meeting are negatively significant to the directors' remuneration. However, the government ownership and performance is not significant. Thus, the steward theory is rejected due to difference in political and policy applied by sample companies. Moreover, firm size, growth and leverage show significant positively relationship to the director remuneration. Finally, the agency theory is more relevant in explaining the corporate governance issues to determined director remuneration in Malaysia.

Keywords: Directors remuneration, board characteristics, government ownership, performance, agency theory and steward theory.

ABSTRAK

Kajian ini menyiasat sebahagian amalan takbir urus korporat di Malaysia dengan tertumpu pada syarikat berkaitan kerajaan di bawah Program Transformasi Kerajaan. Justeru itu, kajian ini menggunakan ciri-ciri lembaga pengarah, pemilikan kerajaan dan prestasi sebagai pemboleh ubah yang mempengaruhi imbuhan pengarah. Ciri-ciri lembaga pengarah mengandungi saiz lembaga pengarah, nisbah pengarah bebas, nisbah pengarah bebas dalam jawatan kuasa imbuhan dan audit serta tempoh jawatan ketua eksekutif. Pemboleh ubah dikawal digunakan adalah saiz syarikat, hutang dan peluang pertumbuhan. Kajian ini dapat dibezakan apabila kerajaan mempunyai pengaruh dalam membuat keputusan. Terdapat 20 Syarikat berkaitan kerajaan (dikenali sebagai G20) yang telah dipilih di bawah pelaksanaan program transformasi kerajaan bermula dari tahun 2004. Kajian yang dibuat adalah ke atas data seimbang di bawah pemerhatian selama 6 tahun (2010-2015). Walau bagaimanapun, berdasarkan kriteria pemilihan sampel, terdapat hanya lima belas syarikat sahaja yang tinggal untuk kajian ini. Teori agensi dan steward digunakan bagi kajian ini untuk menentukan sama ada terdapat kesan isu takbir urus korporat terhadap imbuhan. Menggunakan teknik “Pool OLS” dan “Panel data regression”, kami menjumpai bahawa ciri-ciri lembaga pengarah – pengarah bebas dan kekerapan mesyuarat lembaga mempunyai hubungan negatif kepada imbuhan pengarah. Walau bagaimanapun, pemilikan kerajaan dan prestasi tidak mempunyai hubungan. Jadi teori steward di tolak disebabkan faktor politik dan undang-undang yang diguna pakai bagi sampel syarikat. Tambahan lagi, saiz firma, pertumbuhan dan hutang menunjukkan hubungan positif kepada imbuhan pengarah. Akhirnya, teori agensi adalah lebih relevan dalam menerangkan isu takbir urus korporat dalam menentukan imbuhan pengarah di Malaysia.

Keywords: Imbuhan pengarah, Ciri-ciri lembaga pengarah, pemilikan kerajaan, prestasi, teori agensi dan steward.

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Director remuneration (compensation) is the payment made for services or employment of directors on the board of a company or corporation. This includes their basic salary and others monetary or non-monetary benefits; that an executive receives during his or her tenure. Generally, boards of directors are categorized into two different categories known as executive and non-executive directors. Executive directors are regarded as non-independent directors since they are assigned to specific operating roles within the entities such as finance, administration and operation. Meanwhile, non-executive directors are regarded as independent directors who are not directly involved in operating function. Instead, they are given tasks to monitor the executive directors such as chairing remuneration committee, audit committee and nomination committee within the board's purview (Talha, Sallehhuddin & Masuod, 2009).

This study investigates whether the remuneration of directors is determined by board characteristics, government ownership and firm performance of selected Government Link Companies (GLCs). GLCs in Malaysia is defined as companies directly controlled by the Malaysian Government (Putrajaya Committee on GLC High Performance Transformation, 2006). In GLCs, government appoints board of directors' members and senior management to make major decisions regarding contract awards, strategy, restructuring and financing, mergers and acquisition and divestment for GLCs. In pursuing the objectives, Malaysian government had initiated

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APPENDIX

Appendix A

PUTRAJAYA COMMITTEE ON GLC HIGH PERFORMANCE

List of GLCs within immediate scope of GLC Transformation Programme (GLCT) -28 February 2013

Affin Holdings Berhad
Axiata Group Berhad
BIMB Holdings Berhad
Boustead Holdings Berhad
Chemical Company of Malaysia Berhad
CIMB Group Berhad
Malayan Banking Berhad
Malaysia Airports Holdings Berhad
Malaysian Airline System Berhad
Malaysian Building Society Berhad
Malaysian Resources Corporation Berhad
Sime Darby Berhad
Telekom Malaysia Berhad
Tenaga Nasional Berhad
TH Plantations Berhad
*UEM Group Berhad

The G20 - currently consists of only 17 GLCs following mergers, demergers, divestments and other corporate exercises.

* Unlisted Companies

(Sources by: www.pcg.com)

Appendix B

Panel regression results with GLIC range of ownerships

Variable	Model a	Model b	Model c	Model d
INDP_BRD	-1.337** 0.015	-1.336** 0.013	-1.334** 0.014	-1.370** 0.017
BMEET	-0.061*** 0.001	-0.061*** 0.001	-0.066*** 0.002	-0.065*** 0.001
LNTA	0.417*** 0.000	0.417*** 0.000	0.439*** 0.001	0.462*** 0.001
MTB	0.420*** 0.001	0.419*** 0.001	0.446*** 0.000	0.430*** 0.001
LEV	0.150*** 0.001	0.150*** 0.001	0.148*** 0.000	0.155*** 0.001
ROA	0.046** 0.018	0.047** 0.016	0.049** 0.019	0.052** 0.014
GLIC_OWN 5%-10%	(omitted)			
GLIC_OWN 10%-20%		-0.052 (0.968)		
GLIC_OWN 20%-50%			-0.477 (0.111)	
GLIC_OWN >50%				0.319 (0.118)
_cons	8.649 (0.000)	8.640 (0.000)	8.358 (0.000)	7.801 (0.000)
R ²	64.9	65.91%	65.48%	65.92%
N	90	90	90	90

*, **, *** indicates significance level at 10%, 5% and 1% respectively

For each variable, the first row is the coefficient while the second row is the p-value